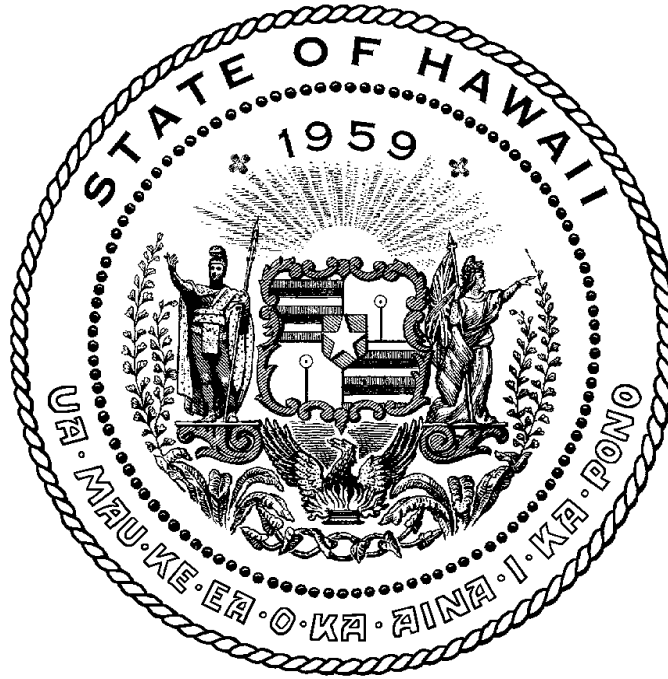


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State of Hawaii
Department of Taxation

Joint Electronic Filing Program with the Internal Revenue Service

Handbook for Electronic Filers of Hawaii Individual
Income Tax Returns

Tax Year 2003

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ELECTRONIC FILING PROGRAM FOR HAWAII INDIVIDUAL RETURNS

Introduction

Hawaii offers electronic filing of individual income tax returns through an Internal Revenue Service (IRS) program that allows electronic filing of both the federal and state tax returns. Any Tax Practitioner or other professional interested in electronic filing of Hawaii individual income tax returns must be a participant in the federal E-file program.

Tax Practitioners and other professionals interested in participating in the Hawaii program are encouraged to read the IRS Revenue Procedure 2000-31 governing the e-file program and IRS Publication 1345, *Handbook for Electronic Return Originators of Individual Income Tax Returns*. Participation in Hawaii's program requires adherence to IRS rules, requirements, and procedures, as well as those outlined in this and other documents. Other publications and documents that contain program regulations are listed under "Electronic Filing Program Publications & Forms" (See page 3). Where IRS provides detailed instructions on hardware, transmission procedures, policies, etc., those same requirements apply to the Hawaii program.

This handbook is designed as a companion to IRS Publication 1345. Since most functions of the Federal/State program are the same as the Federal program, this publication highlights the features of the Hawaii program.

Highlights from last year

Over 114,000 electronic returns were accepted last year. Inquiries from taxpayers declined dramatically. Still, most of the inquiries were about their refund. They were informed that the federal was e-filed, but that they had to mail in the state return themselves. They failed to mail the state return, which then prompted them to call.

Errors on electronic returns detected by our current processing system ran about 5%, while paper returns had an error rate of roughly 13%.

Federal/State Electronic Filing

How Federal/State Electronic Filing Works

Both federal and state returns are submitted in one transmission to the IRS. The IRS will acknowledge receipt of the federal return to the Transmitter. The IRS acknowledgement will indicate if a state return was also transmitted. It should be noted that an IRS acknowledgement is only for the federal return; a Hawaii acknowledgement is needed for the state return.

After both returns pass certain IRS edits, the State of Hawaii Department of Taxation retrieves the return and acknowledges receipt to the Transmitter. Transmitters are provided state acknowledgements after the state returns are retrieved from the IRS. All acknowledgements are provided by the Department via an electronic mailbox service and should be available within three working days from the time the IRS acknowledgement is received. Details on acknowledgements are discussed in the “Hawaii Acknowledgement for Transmitters” section on page 10.

Professional Participation

IRS definitions of authorized electronic filer providers also apply to Hawaii. Three general classifications of participation in this program are Electronic Return Originator (ERO), Transmitter, and Software Developer.

An *ERO* enters tax returns on a computer using software that has been accepted by both the IRS and the Department. These returns are intended for electronic transmission to the IRS. If you are both an ERO and a direct Transmitter, and you have purchased software that automatically retrieves your acknowledgements, be aware that the Department has chosen to use a service provider for the Hawaii acknowledgements. Details are in “Hawaii Acknowledgement for Transmitters” on page 10.

A *Transmitter* does the actual transmission of electronic returns directly to the IRS Service Center using approved software and retrieves both federal and state acknowledgements. A company may be both an ERO and a Transmitter, or an ERO may have an arrangement with a third-party Transmitter to use their communications services.

A *Software Developer* creates and markets software that formats the electronic return and allows the data to be transmitted via computers.

GETTING STARTED

Application Process

Hawaii will automatically accept all ERO and Transmitters located in Hawaii and all Transmitters accepted by IRS to submit returns to Philadelphia Service Center.

Electronic Filers not located in the State of Hawaii, but who wish to submit Hawaii e-file returns, must provide the Electronic Filing Coordinator (listed on page 4) a copy of the filed IRS Form 8633 Application to Participate in the IRS E-file Program and the IRS acceptance letter, to be accepted into the Hawaii e-filing program.

Upon acceptance into the IRS e-file Program, the IRS assigns an Electronic Filing Identification Number (EFIN) and Electronic Transmitter Identification Number (ETIN) if applicable. The same numbers will be used for the Hawaii program.

Electronic Filing Program Publications & Forms

Participants must follow the IRS requirements, standards, policies and procedures in the following:

IRS PUBLICATION

OR FORM	TITLE
Publication 1345	Handbook for Electronic Return Originators of Individual Income Tax Returns
Publication 1345A	Filing Season Supplement for Electronic Return Originators
Publication 1346	Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns
Publication 1436	Test Package for Electronic Filers of Individual Income Tax Returns
Form 8453	U.S. Individual Income Tax Declaration for an IRS e-file Return
Form 8633	Application to Participate in the IRS e-file Program

Participants must follow State of Hawaii requirements, standards, policies and procedures in the below listed publications which are available at www.state.hi.us/tax:

STATE PUBLICATION	TITLE
Publication EF-1	File Specifications and Record Layouts for Individual Income Tax Returns

Publication EF-2

Handbook for Electronic Filers of Hawaii Individual
Income Tax Returns

Publication EF-3

Test Package for Electronic Filers of Individual Income
Tax Returns

Calendar

Hawaii is accepting electronically filed returns for the 2003 tax year on the same schedule as the IRS.

- Begin Hawaii and IRS Acceptance Testing November 17, 2003

Software Developers must complete IRS testing before getting final approval from Hawaii.

- End federal/state software testing No deadline
- Hawaii begins to accept live returns January 16, 2004
- Last day for timely filed live returns April 21, 2004
- Last day for electronically filed returns October 20, 2004

Note: These dates may be subject to change at any time.

Electronic Filing Contact Information

Coordinator: Susan Adamson

E-mail address: Tax.Efile@hawaii.gov

Phone number: (808) 587-1692

Address: State of Hawaii Department of Taxation
P.O. Box 259
Honolulu, HI 96809-0259
Attn: Electronic Filing Coordinator

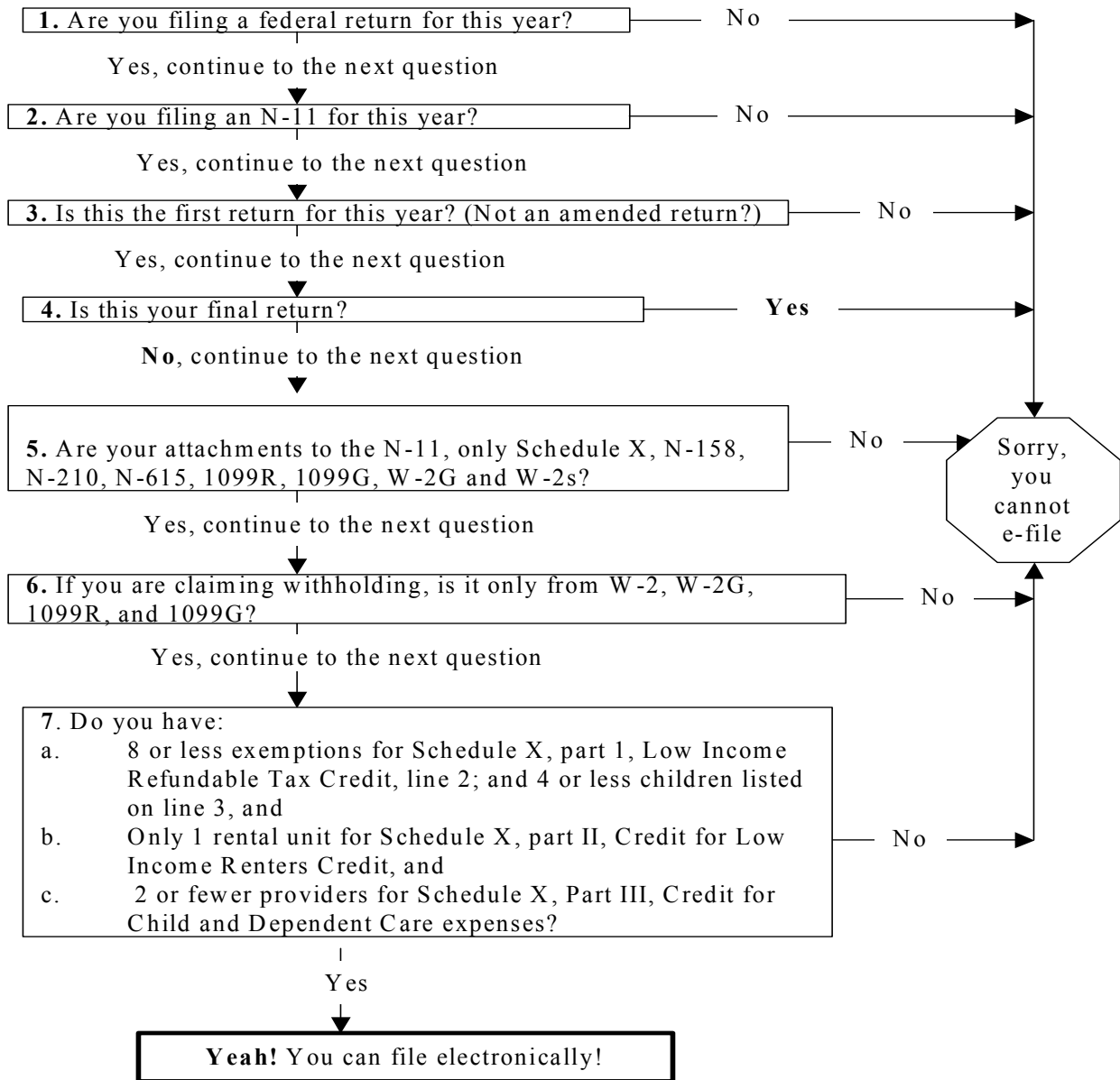
Transmitters experiencing problems with State acknowledgements should contact the Coordinator. This contact information should not be given to taxpayers.

Acceptance and Testing

Hawaii does not require EROs or Transmitters to test their software with the Department. However, Transmitters need to complete Participant Acceptance Testing with the IRS.

Hawaii does not endorse any software product but recommends that purchasing be done after testing is complete. A list of accepted Software Developers will be available at www.state.hi.us/tax.

Who Can File Electronically?



FILING THE ELECTRONIC RETURN

The Electronic Return

Hawaii accepts refund, balance due and zero-balance returns. EROs must verify that the taxpayer meets all criteria for filing electronically.

For tax year 2003, Form N-11 by itself or with the following attachments may be filed electronically:

- Schedule X, Tax Credits for Hawaii Residents
- N-158, Investment Interest Expense Deduction
- N-210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts
- N-615, Computation of Tax for Children Under Age 14 Who Have Investment Income of More than \$1,000
- 1099R, Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
- 1099G, Certain Government Payments
- W-2G, Certain Gambling Winnings
- W-2, Wage and Tax Statement

All exclusions from federal electronic filing also apply to Hawaii. Below are two of them. A complete list is in IRS Publication 1345.

1. Amended and prior year returns.
2. Non-calendar year filers.

Additionally, Hawaii will not accept electronic filing for any of the following. Note that although the federal will accept decedent returns and returns with foreign addresses, Hawaii will not.

1. Returns other than the N-11
2. N-11 returns with an attachment other than those mentioned above
3. Returns for decedents
4. Returns with foreign addresses
5. Returns without valid Social Security Numbers
6. A return attempting to correct a paper return that was filed
7. Final return of the taxpayer
8. Any return that is not the first return for the tax year
9. Returns with a Schedule X that exceed certain limits for the various credits:
 - a. 8 exemptions for Schedule X, part I, Low Income Refundable Tax Credit, line 2; and 4 children listed on line 3, and
 - b. One rental unit for Schedule X, part II, Credit for Low Income Renters, and
 - c. 2 providers for Schedule X, part III, Credit for Child and Dependent Care

Expenses

10. Returns that claim Hawaii withholding from sources other than W-2, W-2G, 1099R and 1099G if the form needs to be attached to the return

Important information needed to prepare the electronic return:

1. New or changed address should be checked if the taxpayer is filing a Hawaii individual return for the first time or has changed address since the last time a Hawaii return was filed.
2. The taxpayer's District needs to be indicated for proper processing of the electronic return.

Transmitting Electronic Returns

Transmitters sending the Hawaii electronic return with the federal return must follow all electronic transmission procedures, communication requirements and technical specifications required by IRS Publication 1345.

Where to transmit the Federal/State returns

Transmit returns to the IRS Austin Service Center. They will be transferred to the IRS Philadelphia Service Center.

IRS Acceptance or Rejection

The IRS may reject the federal and state returns if there are errors. A reject code in the federal acknowledgement record will indicate why the IRS rejected the returns. Reject codes are in Publication 1345A.

The federal and state returns are accepted or rejected together by the IRS. If the IRS rejects a federal return due to errors, they will also reject the attached state return. Likewise, the federal return will be rejected if the IRS rejects the state return.

Hawaii uses a feature of the Federal/State Electronic Filing Program called consistency checking. The IRS checks several items on the state return to make sure those items match the information on the federal return. If one or more of these items do not match or if the state return data is improperly formatted, the IRS will reject both the federal and state returns.

Transmitters may correct the federal and state returns and retransmit them to the IRS Austin Service Center. If the state return cannot be corrected, the filer has the option of re-transmitting the federal return and filing the state return by mail. State returns cannot be electronically filed separately from the federal return.

IRS Acknowledgement

The IRS acknowledgement record contains a code indicating whether a state return was transmitted with the accepted or rejected federal return. The code will be blank if no state return was transmitted with the federal return. Otherwise, the code will be "HI" if a Hawaii return was transmitted with the federal return. IRS acceptance of the federal and state returns means that the IRS received the state return and will make it available to Hawaii. A Hawaii acknowledgement is needed to verify that the Department received the state return.

Hawaii Acceptance or Rejection

After receipt of the State return, checks will be made to ensure that the return can be accepted by the Department's computerized processing system. If the return does not pass all checks, it will be rejected. The acceptance or rejection of the return will be noted on the state acknowledgement. Criteria for rejection are listed under "Reject Criteria" listed on page 11.

Hawaii Acknowledgement

After accepting or rejecting the state return, the Department will acknowledge its receipt to the Transmitter. In the acknowledgement record is a code to signify whether the return was rejected or accepted for further processing. Hawaii will use "A" to signify acceptance and "R" to signify rejection of a return. An electronic return must be acknowledged and accepted before it is considered a filed return.

Signature, W-2, W-2G and 1099G Requirements

There is no state equivalent of the IRS Form 8453, U.S. Individual Income Tax Declaration for an IRS e-file Return. Section 231-8.5, HRS provides that electronic filing constitutes a taxpayer's signature to the return.

"The department may allow filing by electronic, telephonic, or optical means of any tax return, application, report, or other document required under the provisions of title 14 administered by the department.

The date of filing shall be the date the tax return, application, report, or other document is transmitted to the department in a form and manner prescribed by departmental rules adopted pursuant to chapter 91. The department may determine alternative methods for the signing, subscribing, or verifying of a tax return, application, report, or other document that shall have the same validity and consequences as the actual signing by the taxpayer. A filing under this section shall be treated in the same manner as a filing subject to the penalties under section 231-39."

Each taxpayer must be informed that the act of electronically filing a tax return constitutes his signature. The taxpayer's copy of the return will print the declaration on a separate sheet.

The paid preparer's signature is required on two copies of the electronic return. The paid preparer must sign the taxpayer's copy of the return. In addition, the paid preparer must sign and keep a copy of the return in his own files.

Additionally, hard copies of W-2, W-2G or 1099G should not be sent to the Department.

Hawaii Acknowledgement For Transmitters

The Department will acknowledge the receipt of each return from the IRS State Retrieval Subsystem and post acknowledgements for retrieval by Transmitters. The acknowledgement will indicate whether the return has been rejected or accepted for further processing into the Department's computer system. An IRS acknowledgement refers only to the federal return; the state acknowledgement relates to the state return.

Hawaii will be using the Centralized State Acknowledgement System (StAck). StAck operates as a third-party value added network for the distribution of state acknowledgements. StAck will provide a secure electronic mailbox service, accessed by a toll-free number, to receive states' electronic acknowledgement records generated by the Federal/State Electronic Filing program and distribute the acknowledgements to the appropriate Transmitter mailbox.

The service provider for StAck requires all Transmitters to register and establish a mailbox before downloading state acknowledgements. A nominal fee will be charged for use of StAck. Other conventional communications software may be needed to make the initial connection unless the tax software provides these capabilities.

To register, call the StAck Help Desk at (828) 349-5750 to request an application. Registration is also possible through www.state-ack.net.

Transmitters who transmit for EROs and preparers must notify them at the time of receipt of the Hawaii acknowledgement. Transmitters are encouraged to regularly inquire with StAck on the status of transmitted returns.

An acknowledgement indicates the return has been received. It will also indicate whether it has been accepted for processing into the HI system. **Any rejected electronic return must be re-filed on paper.** The addresses where the return should be mailed is in "Responsibilities of Electronic Return Originators and Transmitters – How to Handle a Rejected Return" beginning on page 13.

If the software accesses this system on your behalf, there is no need for you to register with StAck. Refer to the software instructions for more information about any responsibilities for accessing and retrieving state acknowledgements. The acknowledgement file should be available within three days after the federal acknowledgement is received.

Reject Criteria

Hawaii returns will be rejected under the following conditions:

1. A numeric field contains non-numeric characters.
2. The return has a foreign address.
3. A date is invalid.
4. The primary last name or address is missing.
5. The spouse death date is after the filing date for the Qualifying Widow(er) filing status.
6. The first character of street number, street name or apartment number is not alphanumeric.
7. The state abbreviation code is invalid.
8. A zip code is present, but the city and/or state are missing.
9. The filing status code is invalid.
10. There is invalid Header information in the generic or unformatted records.

All reject codes are in “Hawaii Reject Codes”. See pages 16 and 17.

ADDITIONAL INFORMATION

Responsibilities of Electronic Return Originators and Transmitters

Electronic Return Originators and Transmitters must abide by the terms in this handbook and maintain a high degree of integrity, compliance, and accuracy to remain in the Federal/State Electronic Filing Program.

Integrity

EROs are responsible for verifying that the Hawaii return has been properly prepared, accepted by the IRS, and received by the Department. Hawaii and IRS acknowledgements are separate, make sure to receive both.

Compliance

All requirements and specifications in the IRS Publications 1345, 1346, 1436, and this Handbook must be met.

Accuracy

EROs must verify accuracy of the taxpayer's name, address, and Social Security Number. Also, they must provide a complete and accurate copy of the return to the taxpayer according to the guidelines set by the IRS.

Timeliness of Filing

EROs must ensure electronic returns are filed in a timely manner by their Transmitters or themselves. The date of transmission will be the filing date for Hawaii returns. EROs should confirm acknowledgement of the return by the Department before considering the state portion received.

Deadline for Filing

The Department accepts electronically filed Hawaii returns submitted for transmission to the Internal Revenue Service Center through October 20, 2004. Hawaii returns submitted after that date must be filed as paper documents. The addresses for submission are the same as in the next section "Changes on the Return". To avoid a late filing penalty, a taxpayer who wishes to file a return electronically after April 20, 2004, must file Form N-101A, *Application for Automatic Extension of Time to File Hawaii Individual Income Tax Return*, on or before April 20, 2004. Form N-101A only extends the time to file a

return; it does not extend the time to pay income tax. Penalty and interest is assessed on any tax not paid by the original due date.

Changes on the Return

Electronically filed returns may not be changed once submitted. If the taxpayer wishes to make any changes to the return after it has been accepted, the taxpayer may file Form N-188X, *Amended Individual Income Tax Return*. Form N-188X may only be filed as a paper return. The taxpayer may also file an amended return on Form N-11 by writing "AMENDED" in the upper left corner of the return and filling in the return with all of the correct information. Amended returns should be mailed to the taxpayer's District Office. The following are the addresses for the four District Offices:

Oahu District Office
P.O. Box 3559
Honolulu, Hawaii 96811-3559

Maui District Office
P. O. Box 913
Wailuku, Hawaii 96793-0913

Hawaii District Office
P. O. Box 1377
Hilo, Hawaii 96721-1377

Kauai District Office
P. O. Box 1688
Lihue, Hawaii 96766-5688

Hawaii Acknowledgement

Transmitters are encouraged to make regular inquiries on StAck concerning the status of transmitted returns. They are required to notify their EROs of the acceptance of returns.

Transmitters will not be given information other than an acknowledgement that the return was received and whether it was rejected or accepted for further processing. If the Hawaii acknowledgement record indicates acceptance, the electronic return has been received and will be processed. If errors occur on an accepted return, the Department will correspond directly with the taxpayer.

How to Handle a Rejected Return

Preparers have been entrusted with the task of filing a client's tax return and assume the

responsibility of ensuring that the return arrives at the Department. In the event the electronic return fails to arrive at its destination, preparers must notify their clients to file a paper return.

If the electronically filed Hawaii return is rejected, the taxpayer must be informed to submit a paper tax return within 10 working days or by the statutory filing date, whichever is less. The taxpayer should sign the return and print "Electronic Filing" and the date the electronic return was submitted in the upper left corner of the return. The address to mail it is:

Oahu District Office
Data Preparation Section
P.O. Box 259
Honolulu, HI 96809-0259

If an ERO was involved, the ERO, within 24 hours of receiving the rejection, must take reasonable steps to inform the taxpayer that the return has not been filed. The ERO must provide the reject code and the explanation.

Balance Due Returns

Hawaii will not accept any electronic payment methods for tax year 2003. Checks should be made payable to "Hawaii State Tax Collector" and mailed to the taxpayer's filing district with Form N-200V, *Individual Income Tax Payment Voucher*. Each ERO is responsible for giving the taxpayer Form N-200V and for instructing the taxpayer to submit the payment and voucher to their respective district by April 20, 2004.

Taxpayers should be informed that if payment is made after that date, it may be considered late and a penalty may apply. In addition, they should be advised not to include the return or a copy of the return with the payment.

Refunds

Hawaii will be supporting direct deposit of refunds. Taxpayers may request the refund be directly deposited to their bank account, payment of the refund or to credit all or a portion of it to the subsequent tax year. If the refund amount is adjusted or the direct deposit request cannot be honored, the taxpayer will be notified. Refund Anticipation Loans are neither supported nor prohibited.

Refund Delays

Taxpayers may confirm acknowledgement of the return with the practitioner or ERO and are advised to wait four weeks from the date of acknowledgement before calling or writing to inquire about the status of a refund check.

If a taxpayer or spouse owes money to the Department, another State agency, or the IRS, the amount owed may be deducted from the refund. This debt will delay processing of the refund because all claims against the refund must be resolved before a check can be issued. This is the same policy that applies to a paper return.

A taxpayer may inquire about the status of an income tax refund by calling Taxpayer Services at (808) 587-4242 throughout the year or at (808) 587-6515 between January and April 20th. When inquiring, the taxpayer should be prepared to provide SSN, name and address, acknowledgement date and indicate it was filed electronically. Delays in receiving federal refund will not impact the time required to get a Hawaii refund.

Hawaii Reject Codes

Note: For the most part, the definition of "invalid" means a numeric field contained characters, the field exceeded the required length, or data was negative when it should not be.

001	Invalid SSN on generic record
003	Specified length of the generic record does not match the byte count
008	Form/Schedule Number must be "0000001" on generic record
009	State Code must be "HI" on generic record
011	Invalid state code
015	Invalid Julian date
016	Invalid Hawaii filing status code
017	Invalid spouse's SSN
019	Invalid DCN on generic record
020	Invalid RSN
027	Invalid Federal AGI Amount
028	Invalid Wage Difference Amount
029	Invalid Out-of-State Bonds Amount
030	Invalid Other Additions Amount
031	Invalid Federal AGI+HI Additions Amount
032	Invalid Pension Subtractions Amount
033	Invalid Social Security Benefits Amount
034	Invalid Reserve-Guard Pay Amount
035	Invalid Individual Housing Amount
036	Invalid Other Subtractions Amount
037	Invalid Total Subtractions Amount
038	Invalid Hawaii AGI 1 Amount
039	Invalid Medical Deduction Amount
040	Invalid Taxes Deduction Amount
041	Invalid Interest Deduction Amount
042	Invalid Contributions Amount
043	Invalid Casualty Losses Amount
044	Invalid Miscellaneous Deductions Amount
045	Invalid Total Deductions Amount
046	Invalid AGI Less Deductions Amount
047	Invalid Exemption Amount
048	Invalid Taxable Income Amount
049	Invalid Net LT Capital Gain Amount
050	Invalid Tax Liability Amount
058	Invalid Total Non-refundable Credits. No entry
059	Invalid Balance
060	Invalid Tax Withheld Amount
061	Invalid Estimated Tax
062	Invalid Estimated From Prior Year
063	Invalid Paid With Extension Amount
064	Invalid Low-income Credit
065	Invalid Renter's Credit
066	Invalid Dependent Care Credit

067 Invalid Child Car Seat Credit. No entry
 074 Invalid Total Payments
 075 Invalid Overpaid Amount
 076 Invalid Refund Request Amount
 077 Invalid Apply to Estimated Tax Amount
 078 Invalid Balance Due
 079 Invalid Estimated Tax Penalty Amount
 080 Invalid Schedule C Amount
 081 Invalid Schedule E Amount
 082 Invalid Schedule F Amount
 083 Invalid Preparer's FEIN
 084 Invalid Preparer's ZIP
 085 Missing Primary Last Name
 100 Invalid Adjusted Gross Income
 103 Invalid Year Spouse Died
 104 Invalid Total Exemptions for Taxpayer and Spouse
 105 Invalid Number of Dependent Children
 106 Invalid Number of Other Dependents
 107 Invalid Total Number of Exemptions
 108 Invalid DHS Exemptions
 112 Invalid Filing District Code
 113 Invalid Total Additions Amount
 119 Duplicate DCN. N11 and any corresponding W2's and Schedule X's were not saved.
 131 New Address or New Filing Status check box was checked but the Address information is missing.
 132 New Address or New Filing Status check box was checked and the Zip Code is present but the City is missing.
 133 New Address or New Filing Status check box was checked and the Zip Code is present but the State is missing.
 135 The return was identified as state-only and state-only returns are not accepted.
 136 Returns with foreign addresses are not accepted.
 201 Invalid Proceeds Amount
 202 Invalid Designee Phone Number
 204 Invalid General Income Credit
 205 Invalid Total Refundable Credits from CR. No entry.
 206 Invalid Contribution to Hawaii Schools
 207 Invalid Overpayment Less Application of Estimated
 208 Invalid N-168 checkbox. No entry allowed
 999 More than two errors on the generic record were found for this taxpayer.